



*Via Electronic Filing*

December 12, 2002

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, DC 20554

Re: APCC and RBOC Coalition Petitions to Increase Per-Call  
Payphone Compensation Rates (RM No. 10568)

Dear Ms. Dortch:

On December 9, 2002, L. Scott Cohen of AT&T Communications Corporation, Hope Halpern of Telstar International, Inc. and Korhan Aydin of Radiant Communications Corporation, and I met with Jeffrey Carlyle, and Jessica Rosenworcel of the Wireline Competition Bureau to discuss the International Prepaid Communications Association's (IPCA) opposition to the above referenced petitions. The attached document was distributed at the meeting and contains the substance of the matters discussed.

If you have any questions regarding this notice, please contact me.

Sincerely,

A handwritten signature in black ink, which appears to read "Howard Segermark". The signature is fluid and cursive, with a long horizontal stroke at the end.

Howard Segermark

cc: Jeffrey Carlisle  
Jessica Rosenworcel  
Encl.

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December 9, 2002

WC Docket No. 2-202  
In the Matter of RM no. 10568  
Wireline Competition Bureau Solicitation of Comment on Petitions for Rulemaking  
Regarding Payphone Dial-Around Compensation rate

**The position of the International Prepaid Communications Association, Inc.**

The International Prepaid Communications Association, inc. (IPCA) respectfully submits these Comments regarding the above proceeding.

IPCA's comments address the issues raised in the petitions submitted by the American Public Communications Council ("APCC") and the RBOC Coalition ("Coalition") in this proceeding.

The IPCA makes the following comments in opposition to the intent and the merit of the APCC and Coalition petitions, but takes this opportunity to suggest a wider reconsideration of the issue of the FCC policy on public communications facilities.

The issue of dial-around compensation (DAC) must be considered in the context of the FCC policy which determined that it is in the national interest to have a certain, unnamed, number of payphones available to the public. This policy, decades old, does not reflect the great number of communications alternatives available to the public today, and it has the effect of increasing the cost of communications to those persons least able to afford over-priced antiquated technology.

The IPCA represents the prepaid phonecard industry which would have been impossible without the opening of telecommunications to resellers and the diversity that engendered. But it is not widely recognized that the prepaid phonecard industry would not have grown as fast as it did had not the deregulation of payphone long-distance rates resulted in often confiscatory rates imposed on those who used credit cards or deposited coins. Phonecards allowed the consumer to avoid such rates. Today, they continue to offer the most economical way of obtaining long distance service. Phonecards serve 50,000,000 million persons regularly and 61% of the population at least once per year.

With the petitions being considered, we see another attempt to impose confiscatory rates on the users of payphones. The petitioners argue that the number of payphones is declining and one reason is that those consumers who have chosen alternative "dial-around" services do not pay enough. To support the argument, they discuss cost figures, which seem to be contained at considerable expense from accounting firms paid to document the increase in costs.

One of the key reasons for the request for increased DAC, is the fact that reduced use of payphones mean that the costs must be spread over a smaller number of calls – increase the costs of a given dial-around call.

Conspicuously absent in these figures is the fact that there is no attempt to address the reason for the reduced usage. Surely, wireless communications including prepaid wireless is in part responsible. But it is economically undeniable that the cost of using payphones is a contributing factor to the decline in their use.

In addition, the prepaid phonecard industry has seen a significant decline in the number of calls made on payphones using phonecards.

As wireless telecom becomes cheaper, more people have begun using it. As payphone usage has become more expensive, it is only rational that consumers seek alternatives.

We recommend that the FCC should also consider alternatives.

IPCA first recommends that the FCC reconsider its past policy of regarding the marginal payphone as the most important device – and therefore all payphones should be compensated on the basis of that device. We believe that this policy should be recognized as economically perverse and contrary to the public good.

A marginal payphone is by definition the payphone that a rational businessman would consider removing from service – it no longer justifies the costs and the capital investment. In many areas, the government exercises the same judgement on marginal equipment – in the General Service Administration, marginal government cars and trucks are taken out of service and disposed of when their costs (of repair and maintenance) exceed the costs of newer alternatives.

Communications alternatives would seem to require the FCC to reconsider its policy regarding marginal payphones.

What does it mean to consider the cost of a “marginal” payphone? It means that of a population of 1.8 million payphones, there are some that will only be profitable if non-market forces – i.e. government regulation – are used to subsidize them. It also means that the vast majority of phones – benefitting from the subsidies provided to the “marginal” phone -- provide high non-market returns because of that subsidy.

Subsidizing the marginal phone is a great economic benefit to the payphone service provider (PSP), but it is also a burden. It means that PSPs have no incentives to adopt innovative technologies – it is foolish to abandon a subsidy. What we don’t know is what innovations might come forth. What we do know is that the incentives are against innovation.

It is also important to look that the perverse effect the current DAC system has on the poor and disadvantaged in our society. Prepaid phonecards provide the most

economical means of providing the public policy goal of universal service. Phonecards mean that a consumer can use any phone to make a call without imposing costs on the owner of that phone. If a household has no phone service, a phonecard means that the consumer can use a neighbor's phone or a payphone.

If a household has only "lifeline" service, a phonecard is key to making long distance calls.

But, phonecards provide the least-cost alternative to immigrants who recognize that payphone long distance service is still, highly expensive. It provides international calls at rates seldom matched by regular home long distance service.

And the dropping costs of prepaid wireless service means that those without home service can make local calls without using a payphone.

Increasing DAC charges in this environment will have the totally logical effect of further reducing payphone usage. And this will, of course, increase the average cost per call for the marginal phone. This will further decrease average payphone usage, and it is logical to speculate that this would mean that the PSPs would appeal for another increase in DAC. This would have the totally predictable effect on payphone usage, though we can predict that such effect would not be considered in any future cost study commissioned by the PSPs.

The FCC should consider whether or not the current system of subsidizing marginal phones is in the public interest. Through the Universal Service Fund and through state universal funds, it would seem that the question of emergency telecom service should be addressed in this context. In addition, the FCC should consider the various states' ability to recognize needs better than the federal government and the experience they already have in this area.

We therefore urge that prior to the FCC considering opening a docket on the confined parameters of an increase in DAC, that it consider opening a wide-ranging docket on the underlying issue of public access to telecommunications, the role of emergency telecommunications and the ability of alternate technologies and jurisdictions to serve those needs.

The bizarre effects of doubling the DAC charges a phonecard user would face would mean that to cover these costs, the DAC fees attached to a given call from a payphone would approach one dollar. This would be necessary to recoup the costs of deep discounts to distributors and retailers, plus the record processing and reporting costs. Thus, it would increasingly make payphones economically impractical to the millions of phonecard users.

We note that the cost study is deeply flawed. In its documentation of maintenance costs, it totally ignores the fact that a dial-around call does not use the coin mechanism – the most expensive part of a payphone's maintenance costs. The FCC has previously taken notice of the fact that a coinless call does not use this fact.

Conclusion: it was impossible to see what alternatives would develop once telecom competition came about, though the boon of lower costs were predicted. We do know, however, that the competition and innovation we witnessed could not have come about without the removal of the monopoly “subsidy.” Thus, the FCC should consider the great alternatives of alternatives to public telecommunications if its DAC subsidy is revoked. The FCC has advocated market mechanisms for DAC. That has not happened because of the effective “default” subsidy. It is time to let the marketplace work. There are great opportunities for innovative businesses and great new technologies for them to employ.

*The IPCA is the national trade association for prepaid telecommunications and represents the prepaid phonecard industry comprised of many companies who utilize payphones for calls made without a coin drop. The association also participates in the Per Call Compensation Forum and is familiar with the issues related to dial-around compensation. In this matter, the IPCA does not purport to represent Verizon, Bell South, Qwest, AT&T or other members of the association that are also PSPs.*

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